



JOHN CHIANG
California State Controller

December 6, 2007

Gerald Parsky, Chairman
Public Employee Post-Employment Benefits Commission
980 9th Street, Suite 1760
Sacramento, CA 95814

Re: PEBC Staff Recommendations Presented November 13, 2007

Dear Mr. Parsky:

The State Controller's Office (SCO) appreciates the opportunity to share our comments on the Public Employee Post-Employment Benefits Commission (PEBC) staff recommendations, dated November 13, 2007. Because these recommendations will indubitably inform policy decisions that have long-lasting implications, we are pleased to participate in their development. In addition to the written comments we are providing via this letter, our respective staffs are currently discussing the details of the PEBC recommendations to ensure their accuracy and to consider alternatives to achieve the objectives set forth by the Commission. We also would like the opportunity to further discuss our comments at the Commission's upcoming meeting on December 7, 2007, and will discuss participation with your staff. Our comments on some of the recommendations made by the PEBC staff are as follows:

PEBC Staff Recommendation #23:

Legislation should be enacted directing the SCO to develop a simple and inexpensive procedure to regularly collect and report specified OPEB data from California public agencies. The SCO should include this data in the annual report on public pensions required by Government Code section 7504(d).

SCO Comments:

Generally, local government financial reports made to the SCO are provided in the form and manner prescribed by the Controller. To assist the Controller in developing financial publications that are relevant and meaningful, existing law provides for the appointment of an advisory committee to assist the Controller. This body is known as the "Controller's Advisory Committee on Financial Reporting" and is comprised of local government officers. Anticipating

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that policy makers would be interested in OPEB data from local governments, Controller Chiang has already directed his advisory committee to undertake a comprehensive review of local government transactions reporting requirements and to survey various end-users of the data. The SCO and its advisory committee would welcome PEBC's guidance and input in identifying the type of OPEB data that would be appropriate to uniformly collect. Alternatively, if the PEBC wishes to statutorily codify certain reporting requirements, the SCO is willing and able to provide technical support and subject matter expertise.

As you know, Governmental Accounting Standards Board (GASB) Statement Number 45 requires state and local governments to report specified OPEB data in their audited financial statements. Implementation of GASB 45 will be phased in over the next three years. While large governments such as California will implement GASB 45 requirements in their 2007-08 fiscal year financial statements, government entities with total revenues of less than \$10 million are not required to implement the requirements until their 2009-10 fiscal year financial statements. Therefore, we expect that audited OPEB data will not be fully available from all government entities until the 2010-11 fiscal year. However, with the necessary resources, the SCO could commence collecting available OPEB data from local governments in the 2008-09 reporting year.

While the SCO currently collects financial transactions reports from more than 6,000 local government agencies, it does not have a reporting mechanism to collect this particular data nor staffing capacity to absorb the anticipated workload associated with this recommendation. Collecting, analyzing, and publishing OPEB data from all local governments (including school districts) will likely require significant modifications to the existing reporting system, and additional staff and budget resources.

Should this recommendation be adopted, we would appreciate the PEBC's support of our efforts to secure the resources necessary for effective implementation.

SCO Recommendations:

- The PEBC staff should partner with SCO staff and the Controller's Advisory Committee on Financial Reporting to refine and implement Recommendation #23 either utilizing existing channels to modify local government reporting requirements or through legislation.
- The PEBC staff should discuss the proposed legislation with the SCO and Department of Finance budget staff to identify the system and staffing resources that would be required to implement Recommendation #23.

PEBC Staff Recommendation #24:

The SCO should publish the annual report of public pensions, currently required by law, within nine months of the close of the fiscal year.

SCO Comments:

While the Controller supports this recommendation in concept, it is not practical to require OPEB data to be published within nine months of an agency's fiscal year end. Note that most

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governments do not complete their audited financial statements in a timeframe which would allow the SCO to meet this desired deadline. For example, current law (GC § 26909) allows special districts to file their audited statements within 12 months of their fiscal year end. To protect the integrity and reliability of our *Public Retirement Systems Annual Report*, we do not advise collecting and/or reporting unaudited OPEB data.

Currently, public pension systems are required to submit audited financial statements for the Controller's *Public Retirement Systems Annual Report* within six months of their fiscal year end. Of the more than 90 public pension plans with a June 30 fiscal year end and a corresponding reporting deadline of December 31, more than one-third are chronically tardy. Obtaining timely audited financial statements causes most of the delays in agencies filing complete financial reports which, collaterally, retards the ability of the SCO to finalize the retirement systems publication.

You should also note that, in 2003, mandated local government publication deadlines were imposed without additional staff resources. In order to comply with these mandates, the SCO has been forced to divert staff from publications that are not subject to a deadline (e.g., *Public Retirement Systems Annual Report*) to review and analyze local government reports that do have mandated deadlines (e.g., *Community Redevelopment Agencies Annual Report*). Regrettably, this diversion has and will continue to contribute to delays in the analysis and publication of the *Public Retirement Systems Annual Report*.

SCO Recommendations:

- Recommendation #24 should be revised to require publishing retirement systems data within 18 months of the close of the fiscal year. This is a more practical timeline, given the on-going problems receiving audited financial statements within six months of the fiscal year end. It will also ensure more complete information is published, that appropriate data review and analysis is performed, and that a solid baseline of data by which to measure change is produced. Alternatively, additional staff and budget resources can be invested to permit the publication of this report within the timeframe sought by the Commission.

PEBC Staff Recommendation #28:

Establish a California Actuarial Advisory Panel with the Office of the State Auditor or Legislative Analyst's Office to provide interested parties with impartial and independent information on pensions, OPEBs and best practices, and to promote transparency.

SCO Comments:

The SCO strongly supports the concept of a California Actuarial Advisory Panel to provide policy makers and other interested parties with impartial and independent information on pension and OPEB issues. However, we would respectfully urge the Commission to consider assigning the establishment and ongoing administration of the actuarial panel to the SCO for the following reasons:

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- The SCO is already responsible for the state's compliance with GASB 45. In fulfilling this duty, this office prepares the valuation for the financial records using CalPERS data and through a certified actuary.
- The SCO has already commissioned a retirement advisory panel to present unbiased and independent information on retirement and OPEB issues, including those impacting local governments. This retirement panel is authorized by existing law (i.e., GC § 7502). We are expecting sound and insightful guidance from this panel as we look to define information needs and reporting requirements for GASB 45.
- The SCO has established a program designed to provide local governments entities with training, guidance, and other advisory services to assist them with their fiscal management practices.
- The SCO is currently the central repository of local government pension data and, as government entities become subject to GASB 45, will have similar responsibilities for OPEB data.

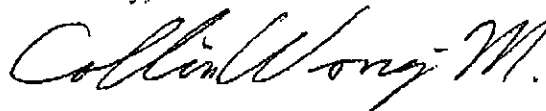
With this basic infrastructure already in place, the Commission may wish to consider recommending that the actuarial panel responsibility be housed at the SCO.

SCO Recommendation:

- Recommendation #28 should be revised to specify that the California Advisory Panel reside within the State Controller's Office. The SCO is an independent office that has an advisory body for public pension reporting and a working knowledge of pension and OPEB financial statements and valuations. It already has a delivery system to provide impartial advice on best practices in actuarial methods, and related technical information.

As indicated, we would appreciate an opportunity to present our comments at the next public hearing scheduled on December 7, 2007. If you or PEBC staff would like to discuss any of this information in advance, please contact Michael Carter, Chief Operating Officer, or me at (916) 445-2636.

Sincerely,



COLLIN WONG-MARTINUSEN
Chief-of-Staff

Office of State Controller John Chiang